

Capital Small Finance Bank Ltd

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Incorporated in 1999 and commencing operations as India's first small finance bank in 2016, CSFBL offers a range of banking products on the asset and liability side, in Punjab, Haryana, Delhi, Rajasthan, Himachal Pradesh and Union Territory of Chandigarh. Its asset products primarily include agriculture loans, MSME and trading loans (working capital, machinery loans etc.) and mortgages (housing loans and loans against property).

CSFBL's core strategy is to strengthen its retail focused banking franchise by enabling access to affordable credit in the states we operate in our well defined niche catering. Its cost of funds was 5.11% and 5.68% for Fiscal 2023 and for the period ended September 30, 2023, respectively. It focuses primarily on the middle-income customer segments i.e., customers with an average annual income of Rs. 0.4 million to Rs. 5 million in semi-urban and rural areas with 41.62% of its branches in rural areas, 34.68% branches in semi-urban areas and 23.70% of branches in urban areas as on September 30, 2023.

As on September 30, 2023 and March 31, 2023 respectively, 99.85% and 99.82% of its loan book was secured with 84.26% and 85.16% of the loans secured by immovable properties. Further, it has strategically focused on building a granular loan book. Since Fiscal 2021, its loans with ticket size of up to Rs. 2.5 million have increased from 62.88% of its total loan book to 67.80% in Fiscal 2023 and stood at 67.44% as on September 30, 2023. As of the said date, it had 1838 employees on its payroll.

The company is now focusing on building a secured and granular loan book over the years with a focus on income generation.

At the IPO price of INR 468 (upper price band), CSFBL is valued at P/E of 22.5x.

Industry	Small Finance Bank
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Issue Details

Listing	BSE & NSE
Open Date	7 th Feb 2024
Close Date	9 th Feb 2024
Price Band	INR 445-468
Face Value	INR 10
Market Lot	32 shares
Minimum Lot	1 Lot

Issue Structure

Offer for Sale	13.97%
Fresh Issue	86.03%
Issue Size (Amt)	INR 523 cr
Issue Size (Shares)	11,176,713
QIB Share (%)	≤50%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 35%
Pre issue sh (nos)	35,350,636
Post issue sh (nos)	44,966,020
Post issue M Cap	2,104 cr

Shareholding (%)	Pre (%)	Post (%)
Promoter	24.01	18.88
Public	75.99	81.12
TOTAL	100	100

Key Financial Data (INR Cr, unless specified)

	Interest Earned	NII	PAT	NIM (%)	Adj EPS (₹)	BVPS (₹)	RoAA (%)	RoAE (%)	P/E (X)	P/BV (X)	CAR(%)
FY21	511.4	198.6	40.8	6.6	9.1	100.3	0.7	9.5	51.6	4.7	19.8
FY22	578.2	255.3	62.6	7.1	13.9	114.7	0.9	13.0	33.6	4.1	18.6
FY23	676.0	322.0	93.6	7.2	20.8	135.8	1.2	16.6	22.5	3.4	18.9

Key Strengths

Retail focused liability franchise with a high share of CASA

CSFBL has created a retail centric deposit franchise with a high share of CASA deposits with CASA ratio increasing from 40.08% in FY21 to 41.88% in FY23. Its deposit rollover ratio has been consistently around 90% for the term deposits, which provides stability to its liquidity profile and demonstrates the continued trust of its customers. Retail deposits having significant advantages including stability in deposit, greater customer retention, enhanced cross selling opportunities supports low cost of funds.

Secured and diversified advances portfolio

CSFBL has consciously focused on building a secured and granular loan book over the years with a focus on income generation. As on March 31, 2023 and September 30, 2023, 99.82% and 99.85% of its loan book, being Rs. 54,97.59 crore and Rs. 58,571.93 crore was secured with 85.16% and 84.26% respectively of the loans being secured with immovable properties. The company has a well diversified portfolio across products (agricultural, MSME and trading, mortgage lending and other products) which helps it to mitigate risk and optimise its resources. The company's focus is on the middle-income group segment and aim to be the primary banker of customers. The average ticket size of its agriculture, MSME & trading and mortgage lending products was Rs 12.3 lakhs, Rs 18.2 lakhs and Rs 11.6 lakhs as of March 31, 2023 and the same stood at Rs 12.4 lakhs , Rs 18.1 lakhs and Rs 11.5 lakhs as on September 30 2023 respectively.

Streamlined credit assessment processes and risk management practices

The company's credit assessment processes and risk management practices enables it to maintain good asset quality and low delinquencies. It's strategy of secured lending, primarily for productive purposes and conservative loan to value ratio contributes towards lower delinquencies and credit losses. It's positioning as the primary banker to most of its customers enables it to have a comprehensive view of and control over their cash flows contributing towards effective credit assessment.

Customer centric approach and understanding of target customers

CSFBL's main focus is on providing products and services to cater to middle income group segment with special emphasis on rural and semi-urban areas in its areas of operations. It aims to be a one-stop financial hub for its customers where it operates. As of March 31, 2023 and September 30, 2023, it had 7,01,071 and 7,25,037 customers respectively (both credit and deposit). Further, as on September 30, 2023, it had 173 branches and 175 ATMs with 76.30% its branches located in rural and semi-urban areas.

Key Risks & Concerns

- The company has settled a matter with SEBI in the past in connection with allotment of Equity Shares to more than 49 investors.
- It is required to ensure compliance with various regulatory requirements. If it is unable to comply with such laws, regulations and norms it may have an adverse effect on its business, financial condition, results of operations and cash flows.
- It has certain contingent liabilities, including guarantees given by it on behalf of its customers in India which constituted 81.14% of the total contingent liabilities as of September 30, 2023. If these contingent liabilities materialise, its financial condition, cash flows and results of operations may be adversely impacted.
- The company is subject to inspections by the RBI. Inspection by RBI is a regular exercise for all banks and financial institutions and RBI has observed various non-compliances by it in the ordinary course in the past. Non-compliance with the observations issued by RBI could adversely affect its business, financial condition, results of operations and cash flows.
- The Indian finance industry is intensely competitive and if the company is unable to compete effectively it would adversely affect its business, financial condition, results of operations and cash flows.

Issue Structure and Offer Details

The proposed issue size of CSFBL is INR 523 cr (INR 450 cr OFS and 73 cr fresh issue) and the price band for the issue is in the range of INR 445-468 and the bid lot is 32 shares and multiples thereof.

Issue Structure	
Investor Category	Allocation
QIB	Not more than 50% of the Net Issue
NIB	Not less than 15% of the Net Issue
Retail	Not less than 35% of the Net Issue

Number of shares based on a higher price band of INR 468

Source: Company Reports

Details of the selling shareholders		
Promoter Selling shares	Amount offered	No of shares
Oman India Joint Investment Fund II	Not more than INR 39.16 Cr	836,728
Amicus Capital Private Equity I LLP	Not more than INR 7.07 Cr	151,153
Amicus Capital Partners India Fund I	Not more than INR 0.82 Cr	17,544

The amount is based on a higher price band of INR 468

Source: Company Reports

CSFBL financial summary and analysis

Fig in INR Cr (unless specified)	FY21	FY22	FY23	Fig in INR Cr (unless specified)	FY21	FY22	FY23
Income Statement				Ratio Analysis			
Interest Income	511.44	578.22	676.01	Efficiency Ratio (%)			
Interest Expense	312.83	322.94	354.02	Int Expended / Int Earned	61.2	55.9	52.4
Net Interest Income	198.61	255.28	321.98	Int Income / Total Funds	8.0	8.1	8.5
YoY growth (%)		28.53	26.13	NII / Total Income	35.6	40.4	44.4
Non Interest Income	45.83	54.19	49.48	Other Inc. / Total Income	8.2	8.6	6.8
Total Net Income	244.45	309.47	371.46	Ope. Exp. / Total Income	31.0	31.0	30.7
Total Operating Expenses	172.96	196.25	222.75	Net Profit / Total Funds	0.0	0.0	0.0
Pre Provision profit	71.49	113.21	148.70	Credit / Deposit	71.4	76.7	82.7
YoY growth (%)		58.37	31.35	Investment / Deposit	23.2	22.4	22.7
Provisions	30.70	50.65	55.11	NIM	3.4	3.7	4.2
Net profit	40.78	62.57	93.60	Solvency			
YoY growth (%)		53.42	49.59	Gross NPA (Rs. Cr)	7.8	11.7	15.3
Balance Sheet				Net NPA (Rs. Cr)	4.2	6.3	7.4
Cash & Balances with RBI	721.72	364.00	462.65	Gross NPA (%)	2.1	2.5	2.8
Inter bank borrowing	568.70	655.06	418.21	Net NPA (%)	1.1	1.4	1.4
Investments	1,212.25	1,357.06	1,488.58	Capital Adequacy Ratio (%)	19.8	18.6	18.9
Loan and Advances	3,726.89	4,634.80	5,428.69	Tier I Capital (%)	14.3	13.2	13.7
Fixed Assets	86.55	83.59	82.59	Tier II Capital (%)	5.5	5.4	5.2
Other Assets	55.12	59.42	110.05	Per Share Data			
Total Assets	6,371.24	7,153.92	7,990.77	EPS	9.1	13.9	20.8
Deposits	5,221.07	6,046.36	6,560.62	Book Value	100.3	114.7	135.8
Borrowings	616.72	498.43	721.38	Adj Book Value of Share	99.3	113.3	134.1
Other Liability	82.66	93.35	98.16	Valuation Ratio			
Equity	33.91	34.04	34.25	Price/Earnings (x)	51.6	33.6	22.5
Reserves	416.88	481.74	576.36	Price/Book Value (x)	4.7	4.1	3.4
Share warrant O/s	0.00	0.00	0.00	Price/Adj.Book Value (x)	4.7	4.1	3.5
Total Liabilities	6,371.24	7,153.92	7,990.77	Return Ratio			
% of Average Assets				RoA (%)	0.7	0.9	1.2
Net Interest Income	0.0	3.8	4.3	RoE (%)	9.5	13.0	16.6
Non Interest Income	0.0	0.8	0.7	Growth Ratio (%)			
Net Income	0.0	4.6	4.9	Interest Income		13.1	16.9
Operating Expenses	0.0	2.9	2.9	Interest Expenses		3.2	9.6
Operating Profit	0.0	1.7	2.0	Other Income		18.2	-8.7
Provisions & Contingencies	0.0	0.7	0.7	Total Income		13.5	14.7
ROA				Net profit		0.0	0.0
	0.7	0.9	1.2	Deposits		15.8	8.5
				Advances		24.4	17.1

Source: Ventura Research

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